



**“VST Tillers Tractors Limited Q2 FY 2017  
Post Results Conference Call”**

**November 7, 2016**



**ANALYST: MR. ANNAMALAI JAYARAJ – BATLIVALA &  
KARANI SECURITIES INDIA PRIVATE LIMITED**

**MANAGEMENT: MR. V.P. MAHENDRA - VICE CHAIRMAN &  
MANAGING DIRECTOR – VST TILLERS  
TRACTORS LIMITED  
MR. K.U. SUBBAIAH – CHIEF EXECUTIVE  
OFFICER - VST TILLERS TRACTORS LIMITED  
MR. R. THIYAGARAJAN – DIRECTOR & CHIEF  
FINANCIAL OFFICER - VST TILLERS  
TRACTORS LIMITED**



*VST Tillers Tractors Limited*  
*November 7, 2016*

**Moderator:** Good morning ladies and gentlemen, welcome to the VST Tillers Tractors Limited Q2 FY 2017 Post Results Conference Call, hosted by Batliwala and Karani Securities India Private Limited. As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you Sir!

**Annamalai Jayaraj:** Thank you Lisan. Good afternoon everyone. On behalf of B&K Securities welcome to the 2Q FY2017 Post Results Conference Call of VST Tillers Tractors Limited. I also like this opportunity to welcome the top management team from VST Tillers Tractors Limited. We have with us today Mr. V.P. Mahendra - Vice Chairman & Managing Director, Mr. K.U. Subbaiah – Chief Executive Officer and Mr. R. Thiyagarajan – Director and Chief Financial Officer. I would now invite VST Tillers Management for the opening remarks to be followed by the question and answer session. Over to you Sir!

**K.U. Subbaiah:** Good morning everybody. Welcome to this conference call. I will provide a summary of our performance in Q2. In Q2, the revenue growth was about 16% compared to the same quarter last year. The PBT growth was 12.4% compared to last year. The PBT percentage is more or less in line with our plan.

**In Tractor** we registered 43% growth in the numbers in Q2, Tiller sales was flat. I have to let you know that all our expenses are in line with our plan. The overhead, and selling expenses are higher than the last year. However it may be noted that we have planned for higher sales promotion expenses during the year to make the VST Shakti brand more visible for new product launches, channel expansions, service coupon reimbursements and also cash discounts for cash and carry.

For the six months, the sales growth is 11% and PBT growth is adverse by 1.42%. The adverse growth in PBT is mainly due to lower sales of tillers than the forecast. The market for tillers has not been very good due to a) initial delay of south west monsoon in some states and b) due to the non-release of grants or subsidy by various state governments on time and (c) One time employee cost increase in Q1 towards the gratuity liability, which accounts for about 0.87% and also salary revisions for the year.



*VST Tillers Tractors Limited*  
*November 7, 2016*

In the next half that is from the period October to March, we expect better performance in case of tillers. The major thing to note is that our 27HP tractor did reasonably well. We sold 494 tractors in Q2 and 351 tractors in Q1. Overall, we gained a market share of 4.7% in the 21-30HP segment during this year. Overall for six months we gained a market share of 1.3% in the <30HP segment.

In Q3, we expect to sell about 6300 tillers and around 2500 tractors. For the whole year, we expect that our revenue growth would be around 15% and PBT would be close to 15%. The tractor growth would be about 20% and tiller will more or less be flat compared to last year.

**Moderator:** Thank you. We will now begin the question and answer session. We will take the first question from the line of Viraj Kacharia from Securities Investment and Management. Please go ahead.

**Viraj Kacharia:** Thank you for the opportunity. Sir, I just have couple of questions. First is I just wanted to clarify you said 20% annual growth in tractors for FY2017 and flattish for tillers right?

**K.U. Subbaiah:** Yes.

**Viraj Kacharia:** If you say 20% kind of growth in annual tractors, which mean we are expecting, subdued growth in tractors in the second half relatively to growth we have seen in Q2. So is there any moderation in demand or is that primarily the demand in Q2 and H1 was primarily driven by wholesale growth and that the retail level we are not seeing that much pickup. If you can just clarify, what has been the growth at a wholesale and the retail level for us in the industry in Q2 and H1 and why relatively weaker growth or relatively smaller growth in H1 or Q2?

**K.U. Subbaiah:** In Q1 the tractors growth was adverse but in Q2, we registered a growth of 43% with which the overall growth in first half was 16%. Overall for the year I am projecting 20% which means the growth in H2 would be higher than H1.

**Viraj Kacharia:** When you are saying industry in relation to our segment or the overall industry you are talking about?

**K.U. Subbaiah:** Our segment 0 to 30HP the industry growth in H1 total was only 6% whereas we grew 16%..



*VST Tillers Tractors Limited*  
*November 7, 2016*

**Viraj Kacharia:** How has the retail growth been in Q2 and H1 and what is the normal inventory cycle we have dealers end for us, basically where I am coming from is how much of the growth in Q2 has been led by new market additions and how much has been from co-markets and then if you can also provide some clarity on how much has been the retail growth for VST in Q2 and H1?

**K.U. Subbaiah:** The growth is still substantially being contributed by our major tractor usage states like Maharashtra, Gujarat, Karnataka and Andhra which has still been contributing very high to our market share. But having said that we also made inroads in few of the states where these compact tractors were not very predominant and that has definitely contributed to the growth in tractor numbers. As far as retail is concerned it is in line with our billing to the dealers. We regularly monitor the dealer stocks. The dealer stock has come down drastically and our stocks has also come down. In other words we have been able to sell to our dealers and they have been able to sell more number of tractors into the market in this year.

**Viraj Kacharia:** Second question was if we look at overall other expenses, you mentioned at the start of the call, we have been making significant investments in last one-and-a-half years and in Q1 you provided that we have been introduced this new credit policy whereby we are incentivising dealers by providing them Rs.4500 per unit or around 1.5% additional discount facilitate to the change in credit model run up through the implementation of DBT in key rates, but if you look at overall debtors in H1 it is still around 70 days versus our thought process of restricting it up to 50 days, so what are the challenges, has there been any resistance or challenges in terms of moving to the new model that is one and second is in terms of spend on advertisement and promotions given our growth plans both tractors and tillers, what is the normal sustainable A&P which one should expect on a yearly basis if you can provide some clarity on these?

**K.U. Subbaiah:** If you look at our receivables today out of the overall outstanding about Rs.24 Crores is a subsidy overdue of last year. The collection of this subsidy overdue is now coming in with the funds being released by the departments. As on date the subsidy overdue has come down to Rs.21 Crores.. So once this subsidy overdue is entirely cleared by the government, which we hope by January or February the outstanding should reduce considerably. Apart from this and the new policy what we have put in place, we feel that by end of March our overall collection days should not be more than 50.



*VST Tillers Tractors Limited*  
*November 7, 2016*

- Viraj Kacharia:** Okay, my second question on the A&P spends given that we are making significant investments in last one-and-a-half years and we also provided the additional 1.5% discount. What is the normal A&P spends on a normalized basis one should expect going forward.
- R. Thiyagarajan:** The overheads are not only on advertisement & promotion and also other sales expenses. Secondly as Mr. Subbaiah already pointed out it is in line with our budget. We are continuously review the expenses to align with the revenue. We always try to defer whatever possible to match it in line with our turnover.
- Viraj Kacharia:** So H2 might see some moderation relative to H1 in terms of intensity, because you said there has been some probably this kind of sales growth we would have expected there has been some the actual sales growth in marginally lower than H2 might be weaker than H1 and there is 1.4% additional discount we are giving two dealers for moving to credit model it is only for FY2017, so these are the only two clarifications?
- R.Thiyagarajan:** That discount is not only for cash and carry.
- Viraj Kacharia:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Good morning Sir. Thanks for the opportunity. Sir, I was wondering if you could give us an update on the subsidy situation for power dealers in our major markets, importantly in Odisha and Bihar and northeast?
- K.U. Subbaiah:** The subsidy scheme have been announced in majority of the states except in the state of Bihar and in the state of Telangana as there are some price issues which is still not resolved. The only thing is that by the time the subsidy schemes in some states was released the season was over which impacted our sales. In case of Tamil Nadu they have already gone in for DBT scheme, in case of Odisha, they have announced that November 1, they will move into the DBT scheme and in the state of Gujarat as you already know they are already practising the DBT scheme.
- Mukesh Saraf:** What percentage of power tiller volumes would be from Bihar and Telangana?
- K.U. Subbaiah:** Bihar and Telangana about 5% not more than 5%.



*VST Tillers Tractors Limited*  
*November 7, 2016*

- Mukesh Saraf:** Only about 5%, Odisha we were hearing news about how the subsidy has not been sanctioned for the entire quarter of power dealers are expected to be sold and only for portion of power dealers, the subsidy has been sanctioned. So now they have sanctioned it for the entire quarter is it?
- K.U. Subbaiah:** Now they have sanctioned for the first half and for second half they have said they are going in for DBT scheme.
- Mukesh Saraf:** Got it. My second question is on price increases, have you taken any price increases for power Tillers especially in tractors as well?
- K.U. Subbaiah:** No, we have not taken any price increases.
- Mukesh Saraf:** Okay, no price increases. My last question is on other expenses now like you explained these are the expenses are higher on account of A&P spends. Sir last quarter, in the first quarter you had indicated that there was certain nonrecurring dealer discounts amounting to around 0.6% of revenue in first quarter. Are there any nonrecurring items this time around?
- R. Thiyagarajan:** There is no nonrecurring discounts.
- Mukesh Saraf:** Sir dealer discounts for this quarter approximately amount to what percentage of sales?
- K.U. Subbaiah:** It remain the same whatever that.
- Mukesh Saraf:** Around 1.4 only.
- K.U. Subbaiah:** Are you talking of Q2 or?
- Mukesh Saraf:** For Q2 I am asking now?
- K.U. Subbaiah:** For Q2, commissions and discounts was about 4.39%.
- Mukesh Saraf:** Okay and how does this compare with Q1?
- K.U. Subbaiah:** It is around the same but minor variation will be there. It is between 4.5% and 5%.
- Mukesh Saraf:** Alright Sir, thank you very much.



*VST Tillers Tractors Limited*  
*November 7, 2016*

**Moderator:** Thank you. We take the next question from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

**Arjun Khanna:** Thank you for taking my question. I just wanted to understand the scenario for power tillers till the last quarter we are looking at a growth for the year, but we are saying we should be largely flattish, so what has really changed in the three month Sir?

**K.U. Subbaiah:** In the Q2, we were not able to get the numbers what we expected. However it may be noted that VST gained market share, and overall in the first half we gained a market share of about 1%. In other words we have done better than last year in market share. But the Tiller demand has been subdued mainly because of irregular and untimely monsoon especially in the state of Karnataka which is one of the major consumer of tillers, in Northeast and Odisha there has been excessive rainfall So the overall tiller market has been little flattish during the year though we expected at the beginning of the year, the monsoon will be very good in all the states and there would be a great demand.

**Arjun Khanna:** Sure fair enough and secondly in terms of tractors, we are looking at close to 10,000 units and now we are talking about 9400, is it because of the pickup of some products have not been as expected?

**K.U. Subbaiah:** No, the pickup of our products has been quite good in fact I would say our 27HP, the acceptability in the market has been very good and in the first six months, we have sold close to 900 tractors. Our product acceptance has been good. We have gained 4.7% market share in less than 30HP segment which is very, very good. Having said this we are confident to grow at the same level. For the six months we registered 16% increase and second half, I expect that we will do better than 16% and I am counting on around 20% or more than 20% which should take us to reach 10,000 numbers.

**Arjun Khanna:** Lastly, there is some bookkeeping questions, how many rice transplanters did we sell this quarter?

**K.U. Subbaiah:** 111 nos this year and Previous year it was 190.

**Arjun Khanna:** At the end of the last call, you had mentioned that we are looking at launching an upgraded tiller, what have been the responses for the same Sir?

**K.U. Subbaiah:** Pretty good, we have sold non-subsidy sales so far we have sold about around 400 numbers of these tillers.



*VST Tillers Tractors Limited*  
*November 7, 2016*

- Arjun Khanna:** What is the price point Sir?
- R. Thiyagarajan:** It is only around Rs.5000 more than our existing 130DI.
- Arjun Khanna:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good morning gentlemen. Firstly, what is the absolute sale numbers in Crores for power tillers and tractors for this quarter?
- R. Thiyagarajan:** Tillers Rs.84.5 Crores, tractors 70 Crores.
- Shashank Kanodia:** Secondly in the October sales number that you just released on BSE, you sold around 1100 power tillers versus the usual runrate I think till 2000 units, is there any seasonal fit to it?
- R. Thiyagarajan:** Could you please repeat it?
- Shashank Kanodia:** In the October sales numbers for power tillers the units are 1100 units whereas your normal quarterly runrate is 6000 units, so this comes around 2000 units per month, so was there any seasonal effect in October any industry specific situation in that you faced?
- R. Thiyagarajan:** In tiller?
- Shashank Kanodia:** Yes, power tillers.
- K.U. Subbaiah:** Power tiller as I said the demand has been quite low and we also did not since the dealer stocks were high we also did not bill more numbers into the dealers, because we did not want them to go in for unsecured credit, so we have been careful in maintaining the dealers stock as well as our production inventory while the overall market even in October if you see till the VST sales has been much better than our peers. So the market has been dull enough in October.
- Shashank Kanodia:** Okay, so in the last concall we have mentioned our market shares 55%, so has been stand today 56% right?
- K.U. Subbaiah:** No actually it is much better it is beyond 59%.





*VST Tillers Tractors Limited*  
*November 7, 2016*

- Shashank Kanodia:** Beyond 59%?
- K.U. Subbaiah:** But you cannot take that because it could be aberration in a few months, so overall for the year, we will still be around 56%, 57%.
- Shashank Kanodia:** Okay, so in terms of margins, is there any difference between our margins that we realize on the EBITDA levels for power dealers and tractors or it should be the same?
- R. Thiagarajan:** Marginal difference.
- Shashank Kanodia:** But which is more lucrative to you?
- K.U. Subbaiah:** Both are not very different as to be one lucrative, other one is not so lucrative. I would say both we need to sell both.
- Shashank Kanodia:** And lastly you have been guiding 15% kind of topline growth, but seeing the kind of margin that you are witnessing, basically 10% to 15% range that you everyday guide us, so will there be a PBT growth of 15% this year?
- K.U. Subbaiah:** I said the PBT we would be able to achieve around 15% for the overall year.
- Shashank Kanodia:** That is what so 15% revenue growth target for FY17 right?
- K.U. Subbaiah:** Yes.
- Shashank Kanodia:** From 17.5% kind of EBITDA margins you have dropped to 15% largely. So will there be any PBT growth, because we do not foresee any PBT growth for this year?
- K.U. Subbaiah:** As I said, there is some investments for the future especially on the sales and marketing expenses, which is a planned item that is taking away about 1.5% to 2% and increase in employee cost due to hiring of new employees for supporting future growth which is taking away 2% of the EBITDA margin which is a long term investment.
- Shashank Kanodia:** Okay, what would be the impact of GST implementation on us, if we fall on to a 12% category or 18% category?
- R. Thiagarajan:** That is still not decided, but we are hoping it would 5% or 12%. It is positive on the either way.



*VST Tillers Tractors Limited*  
*November 7, 2016*

- Shashank Kanodia:** I think since has been do not pay any excise duty we might not take any import credit as of now?
- R. Thiagarajan:** That is why I said it is positive because as of now we do not get any input credit as going forward GST will allow us that benefit.
- Shashank Kanodia:** Which is that revenue neutral rate for you, are you happy with 5, 12, and 18, which bucket?
- R. Thiagarajan:** 12% is revenue neutral rate, so if we get 5% we will be more happy, but if is 12 also we have nothing to worry, it is also positive.
- Shashank Kanodia:** Thank you so much.
- Moderator:** Thank you. We take the next question from the line of Ravi Purohit from Securities Investment Management. Please go ahead.
- Ravi Purohit:** Thanks for taking my question. Could you just repeat what you mentioned in your opening remarks about what you expect in Q3 you said 6300 tillers?
- K.U. Subbaiah:** I said around 6300 tillers and about 2500 tractors.
- Ravi Purohit:** In the month of October, you did I think more than 1400 tractors, so essentially and if I work out, what we have already done in the first seven months of this year, are we talking of almost like 700 or 600 kind of runrate every month going forward because last few months, we have been doing 1000 tractors every month, so if you hit only 9200 then effectively we are talking of a much, much lower runrate than what we have done in the previous two to three months. I think this October, I think, we had some 1100-odd tractors, previous month was some 1000-odd tractors so in that sense how do you see the runrate progressing. Do you expect that runrate to come off a bit? Just wanted to get your views on this runrate of tractor sales, in the sense we have done about more than 1000 for almost a few months now this month, I think, the October month we crossed 1100, and but if you achieve 2500 for the quarter then essentially what we are seeing in the next two months we will do only 700 each, and if we end up achieving let us say what we are guiding for in terms of 20% for the full year then the March quarter we are talking of only about 800 tractors a month. Is that a fair assumption? Do you expect a significant slowdown from where we are right now on tractor sales?



*VST Tillers Tractors Limited*  
*November 7, 2016*

**K.U. Subbaiah:** What is happening is that the major tractor sales will be there up to November 15, after that it will slow down. So that is where we are forecasting that in November it could be about 800 numbers and December will be very low month. Usually Q4 is always a good Quarter and if this turns out to be good then we should be able to reach closer to 10000. That is what we feel.

**Ravi Purohit:** Sir, in terms of our expansion and distribution network, I think in the last two years, we have expanded our distribution network significantly. Can you just throw a little light or explain a little bit in terms of what are the steps we have taken and what has been our reach expansion now than what we were let us say two years back?

**K.U. Subbaiah:** I think about two years back probably we had about 228 dealers. This year we have taken a target to reach 220 dealers for tractors and about 222 dealers for tillers as against that in the first six months in tractors we have 204 dealers in Tractor and tillers we have 216 dealers. By 2020 we would have about 350 dealers for tractors and about 260 dealers for tillers. So this is our plan for the channel expansion.

**Ravi Purohit:** Sir, two years when you said you have about 214, you said both put together or only one?

**K.U. Subbaiah:** We did not have exclusive tractor dealers at that time, these were common dealers. Now we have a few common dealers. Common dealers are about 147 as of the date and exclusive tractor dealers are about 57 and exclusive tiller dealers are about 69. So overall we have 273 dealers today.

**Ravi Purohit:** So, in that sense we are expanding our dealer network quite significantly during this time, some of the A&P spends is due to that is it?

**K.U. Subbaiah:** It should be towards dealer expansion also.

**Ravi Purohit:** In terms of in the past, whenever we have had strong growth in our tractor sales or tiller sales, our suppliers were unable to match our production numbers. How are we dealing with that problem? Are we addressing that or do you think it is addressed already or can you just throw some light on what our thoughts are?

**K.U. Subbaiah:** We are sharing with our suppliers our future plans the numbers of tillers and tractors that we will be selling every year. Based on this information have requested our dealers to build up sufficient capacity. We have embarked on a mission wherein we have started evaluating our dealers very critically in terms of their financial ability, in terms of their capability, in



*VST Tillers Tractors Limited*  
*November 7, 2016*

terms of their capacity. We have started replacing nonperforming suppliers bringing in new suppliers wherever some of them are not performing and wherever we have single suppliers, we have brought in a second supplier so that even in the eventuality supplier has a problem, there is a second source available. So lot of processes or activities are going on in terms of vendor management and I do not see any reason as to why they will not be able to support us as we grow in numbers.

**Ravi Purohit:**

Sir, in terms of this we have been talking about this technology tie up for many years now any progress on that to basically launch a variety of agri-related equipments or right now our focus remains on tillers and tractors?

**K.U. Subbaiah:**

There are two answers to that. One, we have been scouting for a good technology partner especially in tractors and as and when we are able to get one we will announce. As of now we are still in that mode of looking out for a good technology partner. As far as attachment and implements are concerned, there are many local players available in the market. We go discuss with them, find out their technology capabilities. We also work closely with agricultural universities, research institutions who also help us in developing the implements and attachments. For example, in tractors we already have developed 42 attachments/implements and even in case of tillers we have developed about 30 and odd attachments. With the availability of attachments we provide total crop solution to our farmers. We have created a separate crop packages, for example, for rice, for wheat or sugarcane or cotton, or for potatoes, or for any other horticulture crop so we gave them a crop solution, which will help them from beginning till end, for which we have already tied up with various implement manufacturers. This is an ongoing exercise, which will continue, but for any upcoming models, we also utilise the best of engineering houses available in the country or abroad for example engine, we work very closely with AVL or other Engineering consulting firms who has a presence in India. So we work with the best of the best engineering-consulting firms through which we get our product design.

**Ravi Purohit:**

Thanks a lot Sir. All the best for the future.

**Moderator:**

Thank you. The next question is from the line of Kashyap Jhaveri from Capital 72Advicors. Please go ahead.

**Kashyap Jhaveri:**

Thank you very much for the opportunity. Sir, can you give the breakup of your revenue product wise like tillers, tractors in terms of value?

**R. Thiagarajan:**

For the quarter or for the half-year?



*VST Tillers Tractors Limited*  
*November 7, 2016*

- Kashyap Jhaveri:** For the second quarter?
- R. Thiagarajan:** Tillers Rs.84.5 Crores, tractors Rs.70 Crores.
- Kashyap Jhaveri:** Attachments, and spares?
- R. Thiagarajan:** All put together it is attachment, spares is Rs.17 Crores.
- Kashyap Jhaveri:** Can you give the number for the same quarter last year?
- R. Thiagarajan:** Tillers Rs.83, tractors Rs.45, others Rs.16 Crores.
- Kashyap Jhaveri:** In your remarks you mentioned that you have not taken any price increases so whatever is the change in the realization would be primarily because of change in the product mix?
- R. Thiagarajan:** There is no price increases during the current year.
- Kashyap Jhaveri:** Can you throw some light on your launch of 33HP product, which was supposed to happen sometime in this calendar year?
- K.U. Subbaiah:** First of all there was no 33HP product. We launched the 27HP, which we had committed, was launched it in early March and we sold about 900 units this year.
- Kashyap Jhaveri:** In tractor any new products down the line, which could be launched?
- K.U. Subbaiah:** Yes we are looking at a few models. It is too premature for us to tell what models we are going to launch, but answer is yes, we will continuously look for seeing how we can become a dominant player in the overall tractor industry.
- Kashyap Jhaveri:** In the previous quarter, you had highlighted on margins various expenses line where there were slightly higher expenses in terms of percentage of sales this quarter you have mentioned that cash discounts plus some other A&P related expenses were about 1.4% of sales apart from that anything else which could have impacted the margins in lines of what you had highlighted last quarter also?
- K.U. Subbaiah:** The selling expenses as we mentioned are planned expenses, which will continue to be there even in the second half, this is mainly sales promotions expenses, commissions, and discounts and service expenses. The service expenses is what earlier we used to give as a



*VST Tillers Tractors Limited*  
*November 7, 2016*

reduction as a part of the invoice, which we are now reemphasizing based on the service coupons because there was some misuse so we felt that unless otherwise the vehicle is serviced, we should not disclose, so it is coming as an expense which is showing an expense but it actually gets nullified if you compare it with the last year. So overall if you look there will be an increase of 1.5% in selling expenses compared to last year.

- Kashyap Jhaveri:** Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Jaideep Merchant from Janak Merchant Securities. Please go ahead.
- Jaideep Merchant:** Thank you for taking my call Sir. Sir, is the company intending to launch tillers in smaller capacity tillers? Last quarter you commented on the market size of such tillers. Do we intent to do something in the next few months?
- K.U. Subbaiah:** These are power weeders. We have started addressing this market not with our own products, but we have a tie up with an American company who has given us the exclusive rights to sell these power weeders in the market. This comes in two categories, the 4HP engine and 7HP engines. We just started that initiative. So may be in the next quarter we will be able to tell you our plans for the future.
- Jaideep Merchant:** Is this market growing faster than the traditional tillers that we sell?
- K.U. Subbaiah:** It is growing faster but the quantum, the numbers are not as high as tillers. As we speak today the market price is about 20000 to 22000 power weeder for various categories, various sizes.
- Jaideep Merchant:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Viraj Kacharia from Security Investment Management. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity. Just had a follow up to the question what previous participant asked. When we say the power weeder segment this is a space that we have not been present traditionally. So this market is it primarily nonsubsidy driven market or is it again driven by the same subsidy allocations, which various state governments provide? That is one. Second if you can provide the name of that American Company which we have a tie up with?



*VST Tillers Tractors Limited*  
*November 7, 2016*

- K.U. Subbaiah:** Since we have not yet signed the agreement, joint venture agreement, I am afraid I will not be able to tell now. I would not be able to tell you the name of the company, but power weeder also has subsidy from the horticulture department and it will be a combination of subsidy driven sales and direct.
- Viraj Kacharia:** Second question if we look at the other segment revenue excluding power tillers and tractors, that has degrown by close to 10% in the first half, so you talked about there has been quite a decent contraction and transplanter sales, but if you can provide some idea on as to how the sales force, spare parts and other attachments been in H1 compared to the previous year?
- K.U. Subbaiah:** As far as spare parts we have registered a growth compared to last year. We are in line with our plan in terms of spend, but coming to rice transplanters it goes hand in hand with the tillers sales and the season. So this time monsoon not being very good in some of the key consuming states like Karnataka the rice transplanter sales has not been in line with our expectation and also in Odisha because subsidies were announced very late. Apart from this the walk behind transplanters are becoming quite popular and there was a new entrant into the field, Mahindra's who have been able to penetrate the market with a very competitive price and that is why if you really look at the walk behind segment there is a drop in market share while in the sitting type we still continue to dominate that segment.
- Viraj Kacharia:** When you say the overall market for walk behind and sitting, how much it will be right now in India?
- K.U. Subbaiah:** Right now for the whole year, it will be about round about 1000 numbers for the whole year.
- Viraj Kacharia:** For the industry you mean, right?
- K.U. Subbaiah:** Yes.
- Viraj Kacharia:** Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Thanks for the follow up opportunity. Sir, the current year annual report mentions that you have been doing some direct equity investments, so just wanted management's perspective



*VST Tillers Tractors Limited*  
*November 7, 2016*

like normally the company does fixing of securities or mutual fund route, so why have you opted for direct equity investments?

**K.U. Subbaiah:** These investments are addressed by our Chairman, by the Board, so they have their own plans and that is how they do it. So I will not be able to comment anything significant on this. The decision of the investment committee of the board.

**Shashank Kanodia:** But this has been done on the Company's books right your investment in Ambuja Cement or Rane Holdings. So if the promoter wants to have that debt exposure, they can have their own money, right, so why do you put the cash of the company at risk?

**R. Thiagarajan:** It is the investment decision by the investment committee of the Board.

**Shashank Kanodia:** What is that percentage that we will invest in debt equity?

**R. Thiagarajan:** The ratio of Investment in various classes reviewed periodically by the Investment Committee based on the market condition.

**Shashank Kanodia:** Sir, any plans of increasing your dividend payout beyond 20%? Your plans of increasing dividend payout?

**K.U. Subbaiah:** That will in the appropriate time board will decide.

**Shashank Kanodia:** Sir, lastly how is the competition shaping up in the power tiller segment since there is a couple of new entrants, so are they aggressively pushing up and hurting the market share of yours?

**K.U. Subbaiah:** We have not lost the market share as I said. Somebody else has lost the market share. We gained our market share as far as power tillers are concerned and significant is Kubota has made an entry. They sold about 275 tillers and Kirloskar has sold about 900 numbers, but as I said VST regained market share of 1% in the first half. So we have not lost any market share.

**Shashank Kanodia:** Are these space targeting the Chinese imports or any domestic player?

**K.U. Subbaiah:** It can be both. I do not know what their strategy is, but most probably they will first target the Chinese imports.





*VST Tillers Tractors Limited*  
*November 7, 2016*

- Shashank Kanodia:** Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Ravi Purohit from Securities Investment Management. Please go ahead.
- Ravi Purohit:** Just wanted to know you mentioned about this power weeder. What kind of realizations do these products fetch, which basically gives us an idea of what the market, has? I think you mentioned about 20000 to 25000 in terms of volumes, but on a selling price basis, what kind of realizations do these products fetch and therefore what is the potential size of this market and also in terms of how and what is the usage of these kind of products in other markets comparative markets as compared to let us say it is being used in India or it is still being done manually. Can you just throw a little bit light on that?
- K.U. Subbaiah:** Most of this power weeders are all trade sales, people import from various countries in the markets so being a traded product I do not expect the margins to be very high. I think if they are able to get around 10% to 12% margins it is a good number. As I said there is humpty number of players in this market addressing a 25000 segment.
- Ravi Purohit:** We have a technology tie up with an American Company after which we will start manufacturing them here, rather than import?
- K.U. Subbaiah:** As of now it is not a technology tie up what we are working on, it is actually we are going to be the source selling agents for those products in India even we have exclusive rights for selling those products. Over a period of time, we will have to see if the market continues to grow very well and if there is a wide acceptability for this product at that point of time we might consider manufacturing it in India.
- Ravi Purohit:** And what kind of typical selling prices do this product trade at as in sold it in the market?
- K.U. Subbaiah:** It varies from, as I understand from Rs.65000 up to Rs.80000.
- Ravi Purohit:** If Mr. Mahindra is here, we would like to hear from him on the general capital allocation policy of our Company because I think we are already sitting on more than 160 Crores of cash on the balance sheet and every year the cash balances keep increasing. On capex side we do not really need any capex now because we already have sufficient capacity on our tiller and tractor manufacturing facilities for future expansion plans, I think in the past we have bought a few land parcels so in that sense there is no major capex coming up for VST Tillers as a company and every year our annual profits is about 80-odd Crores. So in that



*VST Tillers Tractors Limited*  
*November 7, 2016*

sense the cash on the balance sheet will keep accumulating. There will always been this just inquisitiveness from shareholders as to what kind of capital allocation policy is we following for the future. So if Mr. Mahindra can kind of give us a board's perspective on the investment?

**V.P. Mahendra:** Certainly. Our intension is not to keep accumulating cash and investing it in anything other than the products that we would like to make. The long-term plans are just being put into place, I think, in the next probably quarter we will be able to firm up on that, but to just give you an insight we are spending this year itself almost about 69 Crores and subsequently the next two years also probably little more than that, and all this should be on to a plan that we have in place. So it will not, our intension is the same, not to accumulate cash, but to go into products, added products as Mr. Subbaiah already spoke off we would like to be a major player in this field and we would like to look at a variety of agricultural machinery.

**Ravi Purohit:** This 69 Crores that you are spending, we are spending this on to create capacities by infrastructure or product development?

**V.P. Mahendra:** Primarily related to product development.

**Ravi Purohit:** And you are saying by next quarter we should be able to get some more insight o this. You will be able to share it with investors?

**V.P. Mahendra:** I think I will stand it corrected a little bit. We have also invested in land for some other facilities, which I said will be in place in the next quarter we will be able to throw more light on that. Just not on development, but also on some land.

**Ravi Purohit:** So by next quarter the investors will have some idea as for the board's plan towards capital allocation investments are?

**V.P. Mahendra:** Sure.

**Ravi Purohit:** Thank you so much Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Mr. Annamalai Jayaraj for his closing comments.

**Annamalai Jayaraj:** We thank all the participants. We thank VST Tillers and Tractors Management for sparing time for the call and also providing us the opportunity to host the call. Have a good day.



*VST Tillers Tractors Limited*  
*November 7, 2016*

**V.P. Mahendra:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.

**Disclaimer:** This Release/Communication contains historical information and forward looking statements. These forward looking statements are based on certain expectations, assumptions, anticipated developments and other factors which are not limited to, risk and uncertainties regarding fluctuations in earnings, market growth, intense competition and the pricing environment in the market, consumption level, ability to maintain and manage key customer relationship and supply chain sources and those factors which may affect our ability to implement business strategies successfully, namely changes in regulatory environments, political instability and input costs. The Company, therefore, cannot guarantee that the forward looking statements made herein shall be realized. The Company does not undertake any obligation to update forward looking statements that may be made from time to time by or on behalf of the Company to reflect the events or circumstances after the date hereof. The financial statements are prepared on the basis of the applicable Accounting Standards prescribed by the Institute of Chartered Accounts of India. The Company undertakes no liability/obligation for decision taken by the Investors on the basis of the data mentioned in the Presentation.